



Umzumbe
M U N I C I P A L I T Y

Umzumbe Local Municipality
Annual Financial Statements
for the year ended June 30, 2010

Auditor General
Issued August 31, 2010

Umzumbe Local Municipality

Annual Financial Statements for the year ended June 30, 2010

General Information

Legal form of entity	Municipality
Mayoral committee	
Executive Mayor	Gumede S.T.
Councillors	Dlamini N.Y.
	Ngcobo S.R.
	Msomi D.K.
	Ngcobo M.R.
	Mqadi M.R.
	Nkomo. P.Z.
	Mchunu G.M.
	Peters T.L.
	Ngcongo M.J.
	Mkhize J.M.
	Mntambo L.M.
	Chiliza Z.T.
	Mbhele K.B.M.
	Luthuli M.Z.
	Shozi D.Z.
	Shozi Z.B.
	Sithole S.C.
	Shozi M.P.
	Duma Y.L.
	Zuma S.M.
	Chiliza M.A.
	Dlungwana M.A.
	Shezi C.L.
	Ngcobo J.P.
	Chiliza S.D.
	Doncabe K.S.
	Khuzwayo T.M.
	Luthuli B.B.
	Shozi B.N.
	Ngcobo N.I.
	Ngcobo A.T.S.
	Qumbisa E..
	Mpisane C.N.
	Dlamini K.O.
	Shezi M.T.
	Ngcobo L.M.R.
Accounting Officer	Mbhele TB (Resigned 31 July 2010)
Chief Finance Officer (CFO)	Audan K.
Accounting Officer	Ngesi MJ (DR) (Appointed 1 August 2010)
Registered office	P.O. Box 561 Hibberdeen 4220
Business address	P.O. Box 561

Umzumbe Local Municipality

Annual Financial Statements for the year ended June 30, 2010

General Information

	Hibberdeen 4220
Bankers	ABSA Bank Limited
Auditors	Auditor General

Umzumbe Local Municipality

Annual Financial Statements for the year ended June 30, 2010

Index

The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

Index	Page
Accounting Officer's Responsibilities and Approval	4
Statement of Financial Position	5
Statement of Financial Performance	6
Statement of Changes in Net Assets	7
Cash flow statement	8
Accounting Policies	9 - 15
Notes to the Annual Financial Statements	16 - 24

Abbreviations

CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IMFO	Institute of Municipal Finance Officers
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

A report of the accounting officer has not been prepared as the municipality is a wholly owned controlled entity of which is incorporated in South Africa.

Umzumbe Local Municipality

Annual Financial Statements for the year ended June 30, 2010

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP).

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to June 30, 2011 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is wholly dependent on the grant allocations through the Division of revenue act (DORA) for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the Umzumbe Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

Although the Accounting Officer are primarily responsible for the financial affairs of the municipality, they are supported by the municipality's Chief Finance Officer.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 5.

The annual financial statements set out on pages 5 to 24, which have been prepared on the going concern basis, were approved by the accounting officer on August 31, 2010 and were signed on its behalf by:

Ngesi MJ (DR) (Appointed 1 August 2010)
Municipal Manager

Umzumbe Local Municipality

Annual Financial Statements for the year ended June 30, 2010

Statement of Financial Position

Figures in Rand	Note(s)	2010	2009
Assets			
Current Assets			
Operating lease asset	3	47,112	-
Other receivables	4	102,218	129,270
VAT receivable	5	5,974,403	3,051,044
Consumer debtors	6	595,478	-
Cash and cash equivalents	7	19,786,493	9,683,713
		26,505,704	12,864,027
Non-Current Assets			
Property, plant and equipment	2	84,446,665	58,441,227
Total Assets		110,952,369	71,305,254
Liabilities			
Current Liabilities			
Trade and other payables	11	6,718,798	3,877,671
Unspent conditional grants and receipts	9	15,796,416	8,886,763
Provisions	10	979,985	806,672
Bank overdraft	7	-	441,670
		23,495,199	14,012,776
Total Liabilities		23,495,199	14,012,776
Net Assets		87,457,170	57,292,478
Net Assets			
Accumulated surplus		87,457,170	57,292,478

Umzumbe Local Municipality

Annual Financial Statements for the year ended June 30, 2010

Statement of Financial Performance

Figures in Rand	Note(s)	2010	2009
Revenue			
Property rates	12	771,400	-
Interest received		1,558,947	963,629
Government grants & subsidies	13	79,405,298	62,384,114
Other income		652,099	653,835
Total Revenue		82,387,744	64,001,578
Expenditure			
Employee related costs	15	(17,473,911)	(11,670,574)
Remuneration of councillors	16	(4,369,738)	(7,726,854)
Depreciation and amortisation		(6,646,344)	(3,254,307)
Finance costs		-	(8,579)
Debt impairment		(94,139)	-
Repairs and maintenance		(459,048)	(114,874)
Community participation		(1,128,184)	(4,404,985)
General Expenses	14	(23,830,887)	(27,492,270)
Total Expenditure		(54,002,251)	(54,672,443)
Surplus for the year		28,385,493	9,329,135

Umzumbe Local Municipality

Annual Financial Statements for the year ended June 30, 2010

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	51,039,672	51,039,672
Adjustments		
Prior year adjustments (Note 28)	(3,076,329)	(3,076,329)
Balance at July 01, 2008 as restated	47,963,343	47,963,343
Changes in net assets		
Surplus for the year	9,329,135	9,329,135
Total changes	9,329,135	9,329,135
Opening balance as previously reported	58,030,610	58,030,610
Adjustments		
Prior adjustment on Accumulated depreciation	1,541,548	1,541,548
Prior year error	(732,766)	(732,766)
Prior year adjustments	232,285	232,285
Balance at July 01, 2009 as restated	59,071,677	59,071,677
Changes in net assets		
Surplus for the year	28,385,493	28,385,493
Total changes	28,385,493	28,385,493
Balance at June 30, 2010	87,457,170	87,457,170
Note(s)		

Umzumbe Local Municipality

Annual Financial Statements for the year ended June 30, 2010

Cash flow statement

Figures in Rand	Note(s)	2010	2009
Cash flows from operating activities			
Receipts			
Cash receipts for equittable share, conditional grants and from debtors		86,647,082	66,543,232
Other cash item		652,099	963,633
		<u>87,299,181</u>	<u>67,506,865</u>
Payments			
Finance costs		-	(8,579)
Cash paid to suppliers and employees		(45,882,149)	(44,524,051)
		<u>(45,882,149)</u>	<u>(44,532,630)</u>
Net cash flows from operating activities		<u>41,417,032</u>	<u>22,974,235</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	2	(31,120,727)	(21,550,413)
Proceeds from sale of property, plant and equipment	2	248,145	-
Net cash flows from investing activities		<u>(30,872,582)</u>	<u>(21,550,413)</u>
Net increase/(decrease) in cash and cash equivalents		10,544,450	1,423,822
Cash and cash equivalents at the beginning of the year		9,242,043	7,818,221
Cash and cash equivalents at the end of the year	7	<u>19,786,493</u>	<u>9,242,043</u>

Umzumbe Local Municipality

Annual Financial Statements for the year ended June 30, 2010

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

1.1 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Infrastructure

• Leveling Drains on roads	20
• Roads construction	10
• Road gravelling	10
• Borehole pump	15

Other

Umzumbe Local Municipality

Annual Financial Statements for the year ended June 30, 2010

Accounting Policies

1.1 Property, plant and equipment (continued)

• Buildings	30
• Furniture and Fittings	8
• Motor Vehicles	5
• Computer equipment	5
Plant and Equipment	
• Tip Trailer	15
• Furrow Plough	5
• Harrow Offset	5
• Tractors	10
• Hydroponic Tunnel	10
• Grader	15
• TLB	15

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

1.2 Intangible assets

An asset is identified as an intangible asset when it:

- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

An intangible asset acquired at no or nominal cost, the cost shall be its fair value as at the date of acquisition.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the

Umzumbe Local Municipality

Annual Financial Statements for the year ended June 30, 2010

Accounting Policies

1.2 Intangible assets (continued)

asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software, other	3 years

1.3 Financial instruments

Trade and other receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

Trade and other payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the municipality's accounting policy for borrowing costs.

1.4 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

Umzumbe Local Municipality

Annual Financial Statements for the year ended June 30, 2010

Accounting Policies

1.5 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the municipality's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

Defined benefit plans

The defined benefit obligation, the related current cost and where applicable, past-service cost, is determined by using the Projected Unit Credit Method. A portion of the actuarial gains and losses is recognized as revenue or expense, provided the net cumulative actuarial gains and losses at the end of the previous reporting period exceed greater of:

- 10% of the present value of the defined benefit obligation at that date before deducting plan assets; and
- 10% of the fair value of the plan assets.

The portion of the actuarial gains and losses to be recognized is equal to the excess calculated, using the above limits and divided by the expected average remaining working lives of the employees participating in the plan. Unvested past-service costs are recognized as an expense in the Statement of Financial Performance.

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Pension, Provident, Retirement Benefits and Group Life Scheme

The municipality provides retirement benefits for its employees in the form of both defined benefit and defined contribution plans. The municipality is no longer providing a retirement benefits for the councilors, because they are now getting a total package.

A defined benefit plan is a plan that defines an amount of benefit that an employee will receive on retirement. A defined contribution plan is a plan under which the municipality pays a fixed contribution into a separate entity. The municipality has no legal or constructive obligation to pay further contribution if the fund does not hold sufficient assets to pay all employees the benefits relating to service in the current or prior period.

The contributions to fund obligations for the payment of retirement benefits are charged against the revenue in the year they become payable. The defined benefit funds, which are administered on a provincial basis, are actuarially valued triennially on the projected unit credit method basis. Deficits identified are recognized as a liability and are recovered through lump sum payments or increased future contributions on a proportional basis to all participating municipalities.

The municipality also contributes in a Group Life Scheme for all employees in the event of their death other than section 57 employees.

1.6 Provisions and contingencies

Umzumbe Local Municipality

Annual Financial Statements for the year ended June 30, 2010

Accounting Policies

1.6 Provisions and contingencies (continued)

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note .

1.7 Revenue

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Revenue from unconditional grants are recognised immediately upon receipt.

Revenue from Tender sales is recognised when the bidders have actually bought the tender documents and cash has been received.

Rates

Revenue from rates is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

Conditional grants and receipts

Conditional grants, donations and funding are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

If grants are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

Umzumbe Local Municipality

Annual Financial Statements for the year ended June 30, 2010

Accounting Policies

1.8 Borrowing costs

It is inappropriate to capitalise borrowing costs when, and only when, there is clear evidence that it is difficult to link the borrowing requirements of an entity directly to the nature of the expenditure to be funded i.e. capital or current.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.9 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.10 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.11 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.12 Irregular expenditure

Irregular expenditure is an expenditure that is contrary to the Municipal Finance Management Act (Act No. 56 of 2003), Municipal Systems Act (Act No. 32 of 2000), Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the municipality's supply chain management policy. Irregular expenditure excludes an unauthorised expenditure. Irregular expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.13 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.14 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP

1.15 Internal reserves

Government grant reserve

When items of property, plant and equipment are financed from government grants, a transfer is made from the accumulated surplus/deficit to the Government Grants Reserve equal to the Government Grant recorded as revenue in the statement of financial performance in accordance with a directive issued by National Treasury. When such items of property, plant and equipment are depreciated, a transfer is made from the Government Grant Reserve to the accumulated surplus/deficit. The purpose of this policy is to promote community equity by ensuring that the future depreciation expenses that will be incurred

Umzumbe Local Municipality

Annual Financial Statements for the year ended June 30, 2010

Accounting Policies

1.15 Internal reserves (continued)

over the useful lives of government grant funded items of property, plant and equipment are offset by transfers from this reserve to the accumulated surplus/deficit.

The purpose of this policy is to promote community equity by ensuring that the future depreciation expenses that will be incurred over the useful lives of government grant funded items of property, plant and equipment are offset by transfers from this reserve to the accumulated surplus.

When an item of property, plant and equipment financed from government grants is disposed, the balance in the Government Grant Reserve relating to such item is transferred to the accumulated surplus/deficit.

Umzumbe Local Municipality

Annual Financial Statements for the year ended June 30, 2010

Notes to the Annual Financial Statements

Figures in Rand

2010

2009

2. Property, plant and equipment

	2010			2009		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Buildings	-	-	-	2,003,030	(342,151)	1,660,879
Plant and machinery	-	-	-	3,711,021	(1,103,834)	2,607,187
Furniture and fixtures	-	-	-	1,522,649	(572,881)	949,768
Motor vehicles	-	-	-	2,383,622	(1,011,596)	1,372,026
Office equipment	-	-	-	782,855	(297,541)	485,314
IT equipment	-	-	-	1,416,831	(585,724)	831,107
Infrastructure	-	-	-	16,038,374	(3,075,781)	12,962,593
Community	-	-	-	36,176,636	(2,090,333)	34,086,303
Solid Waste Disposal	37,794	(3,191)	34,603	-	-	-
Dwellings	431,776	(62,766)	369,010	-	-	-
Computer Equipment	1,461,717	(628,159)	833,558	-	-	-
Furniture & Office Equipment	2,082,813	(859,068)	1,223,745	-	-	-
Non Residential Dwellings	46,042,748	(7,380,968)	38,661,780	-	-	-
Transport Assets	2,316,701	(463,381)	1,853,320	-	-	-
Machinery & Equipment	3,424,520	(1,099,004)	2,325,516	-	-	-
Roads	26,714,249	(3,173,994)	23,540,255	-	-	-
Assets under construction	15,604,878	-	15,604,878	3,486,050	-	3,486,050
Total	98,117,196	(13,670,531)	84,446,665	67,521,068	(9,079,841)	58,441,227

Umzumbe Local Municipality

Annual Financial Statements for the year ended June 30, 2010

Notes to the Annual Financial Statements

Figures in Rand

2. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2010

	Opening balance	Additions	Disposals	Transfers	Donations	Other changes, movements	Depreciation	Impairment loss	Total
Buildings	1,660,879	-	-	(1,660,879)	-	-	-	-	-
Plant and machinery	2,607,187	-	-	(2,607,187)	-	-	-	-	-
Furniture and fixtures	949,768	-	-	(949,768)	-	-	-	-	-
Motor vehicles	1,372,026	-	-	(1,372,026)	-	-	-	-	-
Office equipment	485,314	-	-	(485,314)	-	-	-	-	-
IT equipment	831,107	-	-	(831,107)	-	-	-	-	-
Infrastructure	12,962,593	-	-	(12,962,593)	-	-	-	-	-
Community	34,086,303	-	-	(34,086,303)	-	-	-	-	-
Solid Waste Disposal	-	-	-	36,304	-	-	(1,701)	-	34,603
Dwellings	-	188,000	-	216,513	-	-	(35,503)	-	369,010
Computer Equipment	-	205,193	(81,185)	911,153	73,127	-	(274,730)	-	833,558
Furniture & Office Equipment	-	129,987	(33,737)	1,332,968	66,619	-	(272,092)	-	1,223,745
Non Residential Dwellings	-	10,088	-	40,520,877	15,652	2,549,632	(1,492,045)	(2,942,424)	38,661,780
Transport Assets	-	283,162	(321,072)	1,870,608	270,220	-	(249,598)	-	1,853,320
Machinery Equipment	-	9,800	(792)	2,591,782	673	-	(275,947)	-	2,325,516
Roads	-	-	-	9,016,520	-	15,626,037	(1,024,516)	(77,786)	23,540,255
Assets Under Construction	3,486,050	30,294,497	-	-	-	(18,175,669)	-	-	15,604,878
	58,441,227	31,120,727	(436,786)	1,541,548	426,291	-	(3,626,132)	(3,020,210)	84,446,665

Umzumbe Local Municipality

Annual Financial Statements for the year ended June 30, 2010

Notes to the Annual Financial Statements

Figures in Rand

2. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2009

	Opening balance	Additions	Depreciation	Total
Buildings	1,588,871	136,875	(64,867)	1,660,879
Plant and machinery	2,427,512	510,195	(330,520)	2,607,187
Furniture and fixtures	598,372	513,335	(161,939)	949,768
Motor vehicles	1,785,481	-	(413,455)	1,372,026
Office equipment	253,428	337,317	(105,431)	485,314
IT equipment	637,734	414,132	(220,759)	831,107
Infrastructure	11,281,691	2,704,399	(1,023,497)	12,962,593
Community	18,085,981	16,934,160	(933,838)	34,086,303
Assets Under construction	3,486,050	-	-	3,486,050
	40,145,120	21,550,413	(3,254,306)	58,441,227

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

3. Operating lease asset

Current asset	47,112	-
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Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference of R47,112 between the amounts recognised as an expense and the contractual payments has been recognised as an operating lease asset.

4. Other receivables

Sundry debtors	81,764	96,578
Interest	20,454	32,692
	102,218	129,270

Umzumbe Local Municipality

Annual Financial Statements for the year ended June 30, 2010

Notes to the Annual Financial Statements

Figures in Rand	2010	2009
5. VAT receivable		
VAT	5,974,403	3,051,044
6. Consumer debtors		
Gross balances		
Rates	689,617	-
Less: Provision for debt impairment		
Rates	(94,139)	-
Net balance		
Rates	595,478	-
Rates		
Current (0 -30 days)	106,047	-
61 - 90 days	128,566	-
91 - 120 days	128,567	-
121 - 365 days	232,298	-
	595,478	-
Reconciliation of debt impairment provision		
Contributions to provision	(94,139)	-
7. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Bank balances	10,211,274	106,661
Short-term deposits	9,575,219	9,577,052
Bank overdraft	-	(441,670)
	19,786,493	9,242,043
Current assets	19,786,493	9,683,713
Current liabilities	-	(441,670)
	19,786,493	9,242,043

The municipality had the following bank accounts

Account number / description	Bank statement balances		Cash book balances		
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009	
ABSA BANK LTD - Port Shepstone - 40-7276-2850	10,778,447	2,597,726	- 9,976,062	(441,670)	-
ABSA BANK LTD - Port Shepstone - 40-72780715;40-72776506	216,370	200,000	- 216,370	200,000	-
Total	10,994,817	2,797,726	- 10,192,432	(241,670)	-

Umzumbe Local Municipality

Annual Financial Statements for the year ended June 30, 2010

Notes to the Annual Financial Statements

Figures in Rand	2010	2009
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8. Accumulated surplus

Ring-fenced internal funds and reserves within accumulated surplus - 2010

	Government grant reserve	Total
Opening balance	29,216,191	29,216,191

Ring-fenced internal funds and reserves within accumulated surplus - 2009

	Government grant reserve	Total
Opening balance	25,730,139	25,730,139
Assets under construction	3,486,052	3,486,052
	29,216,191	29,216,191

9. Unspent conditional grants and receipts

Movement during the year

Balance at the beginning of the year	8,886,763	19,492,545
Additions during the year	38,263,595	15,102,581
Income recognition during the year	(31,353,942)	(25,708,363)
	15,796,416	8,886,763

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

10. Provisions

Reconciliation of provisions - 2010

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Total
Leave pay	806,672	979,985	(285,761)	(520,911)	979,985

Reconciliation of provisions - 2009

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Total
Leave pay	466,812	806,672	(35,204)	(431,608)	806,672

11. Trade and other payables

Trade payables	6,694,153	3,788,287
Other payables	24,645	89,384
	6,718,798	3,877,671

Umzumbe Local Municipality

Annual Financial Statements for the year ended June 30, 2010

Notes to the Annual Financial Statements

Figures in Rand	2010	2009
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12. Property rates

Rates received

Property rates	771,400	-
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With effect from 1 July 2009, the Municipality has implemented property rates.

13. Government grants and subsidies

Equitable share	48,056,023	37,377,764
MIG	27,959,824	21,051,689
MSIG	735,000	735,000
Low Cost Housing Grant	591,274	250,148
Financial Management Grant	1,037,705	598,322
MAP	299,768	313,802
LED strategy	86,991	-
Youth Advisory Centre	108,667	28,333
Governance grant	21,052	-
Capacity support grant	18,565	216,241
Burial Support	16,954	17,698
Property rates	6,679	143,125
Water drought relief	6,424	1,052,502
CDW	854	-
DOT school crossing guards	-	10,020
IDP	151,666	310,806
Governance structures and HR systems and PP	-	250,000
Community workers development	-	28,664
Low costs housing grant	307,852	-
	79,405,298	62,384,114

14. General expenses

Advertising	146,805	319,437
Auditors remuneration	453,379	385,685
Bank charges	81,806	81,036
Consulting and professional fees	863,909	206,684
Consumables	78,670	81,153
Entertainment	154,099	198,825
Insurance	597,577	262,551
Community development and training	253,266	416,144
Conferences and seminars	38,018	159,878
Lease rentals on operating lease	179,415	150,290
Marketing	69,090	23,396
Magazines, books and periodicals	1,128	1,910
Motor vehicle expenses	655,258	910,081
Printing and stationery	448,652	272,385
Security (Guarding of municipal property)	107,471	-
Telephone and fax	1,284,006	1,428,872
Training	208,521	270,317
Travel - local	791,197	103,583
Electricity	90,095	15,961
Free basic services (Electricity & Water)	5,154,682	5,593,150
Uniforms	9,483	34,479
Tourism development	697,599	532,537
Projects expenditure	6,539,428	9,279,723
Other expenses	4,927,333	6,764,193
	23,830,887	27,492,270

Umzumbe Local Municipality

Annual Financial Statements for the year ended June 30, 2010

Notes to the Annual Financial Statements

Figures in Rand	2010	2009
15. Employee related costs		
Basic	10,392,096	5,620,736
Bonus	613,297	339,584
Medical aid - company contributions	419,294	348,063
UIF	66,245	65,980
SDL	109,595	122,196
Leave pay provision charge	285,761	851,490
Post-employment benefits - Pension - Defined contribution plan	909,140	1,310,254
Travel, motor car, accommodation, subsistence and other allowances	3,692,310	2,087,427
Overtime payments	324,656	324,111
Acting allowances	92,027	-
Housing benefits and allowances	90,369	-
Other expenses	479,121	600,733
	17,473,911	11,670,574
Remuneration of Municipal Manager		
Annual Remuneration	349,775	331,398
Car Allowance, Entertainment and Telephone Allowance	223,268	202,201
Performance Bonuses	39,800	-
Housing Allowances	55,233	55,233
Other	12,644	-
	680,720	588,832
Remuneration of Chief Finance Officer		
Annual Remuneration	358,450	221,799
Car, Entertainment and Telephone Allowances	89,920	155,515
Performance Bonuses	-	34,310
Housing Allowances	-	3,610
Other	3,764	-
	452,134	415,234
Remuneration Corporate Services Director		
Annual Remuneration	355,167	331,182
Car, Entertainment and telephone Allowances	123,519	111,263
Performance Bonuses	30,324	-
Other	11,728	-
	520,738	442,445
Remuneration of Technical Services Director		
Annual Remuneration	265,919	267,501
Car, Entertainment and Telephone Allowances	87,291	94,221
Performance Bonuses	30,324	-
Housing Allowances	45,696	71,478
Other	3,504	-
	432,734	433,200
Remuneration of Social & Community Services Director		
Annual Remuneration	223,781	-
Car Allowance	134,015	-
Other	2,654	-

Umzumbe Local Municipality

Annual Financial Statements for the year ended June 30, 2010

Notes to the Annual Financial Statements

Figures in Rand	2010	2009
15. Employee related costs (continued)	360,450	-
16. Remuneration of councillors		
Councillors	4,369,738	7,726,854
17. Commitments		
Authorised capital expenditure		
Approved and contracted for:		
• Infrastructure	26,773,189	17,475,594
Approved but not yet contracted for:		
• Infrastructure	12,875,292	21,187,611
This committed expenditure relates to Infrastructure and will be financed by Government grants.		
18. Unauthorised expenditure		
Opening balance	7,989,158	862,471
Unauthorised expenditure current year	-	7,289,568
Less: Amounts condoned	(5,773,036)	(162,881)
	2,216,122	7,989,158
<p>Incident</p> <p>A duplicate payment of R862 471 was made to REI Management Consulting regarding the Electrification Programme. REI was also given an advance of R1 330 292 (Excl. Vat) for the work not performed.</p> <p>Action</p> <p>Forensic audit concluded that Criminal and civil cases are to be pursued by the municipality. The investigation is still ongoing.</p>		
19. Fruitless and wasteful expenditure		
Opening balance	162,881	10,500
Current year expenditure	-	152,381
Less: Amounts condoned	(162,881)	-
	-	162,881
20. Irregular expenditure		
Opening balance	6,179,384	2,926,300
Add: Irregular Expenditure - current year	-	3,253,084
Less: Amounts condoned	(5,842,856)	-
	336,528	6,179,384

Details of irregular expenditure – current year

Umzumbe Local Municipality

Annual Financial Statements for the year ended June 30, 2010

Notes to the Annual Financial Statements

Figures in Rand	2010	2009
20. Irregular expenditure (continued)		
Incident		
The R336 528 refers to an irregular payment made to a sub contractor, Great Supply CC, although the service provider, NES, was paid in full.	Disciplinary steps taken/criminal proceedings The matter has been referred for legal opinion and is presently under investigation.	336,528
21. Retirement Benefit Information		
<p>The Municipality's employees are members of the following Benefit Schemes. Natal Joint Municipal Pension Fund (a State and Multi Employer Defined Benefit Plan). Kwazulu Natal Joint Provident Fund (a State and Multi Employer Defined Contribution Plan). Along with other Municipalities in the province of Kwazulu Natal, uMzumbe participates in a multi employer defined plan. Because the plan exposes the participating entities to actuarial risks associated with the current and former employees of other municipalities participating in the plan there is no consistent and reliable basis for allocating the obligation, plan assets and cost to individual municipalities participating in the plan. uMzumbe therefore accounts for the plan as if it were defined contribution plan per Exposure Draft No. 49.</p>		
22. Prior year adjustments		
Adjustments for assets		
Land and buildings	-	(194,399)
Community assets	-	(206,626)
Non Residential Dwellings	(1,541,548)	-
Access roads	-	(1,078,157)
	(1,541,548)	(1,479,182)
Adjustment for accrued interest		
Accrued interest from prior years not reversed	-	(295,833)
Adjustment for prior year errors		
Vat output incorrectly accounted for in prior years	-	1,147,205
Difference between Creditors age analysis and ledger	(732,766)	-
Pension fund accrual for prior years not reversed.	-	252,587
	(732,766)	1,399,792
Adjustment for provision for doubtful debts		
Doubtful debts provision not raised in the prior year	-	(1,330,292)
Adjustment for prior year cheques		
Reversal of prior years stale cheques	-	(86,031)

Umzumbe Local Municipality

Annual Financial Statements for the year ended June 30, 2010